C5150-2-P

Merchandising Trends:
Combo evolution pace quickens—p. 17

C.E. Lesson:
Essential hypertension—p. 55

Inside Pharmacy:
Brand name/generic marriage shaky—p. 36

DRUG STORE NEWS

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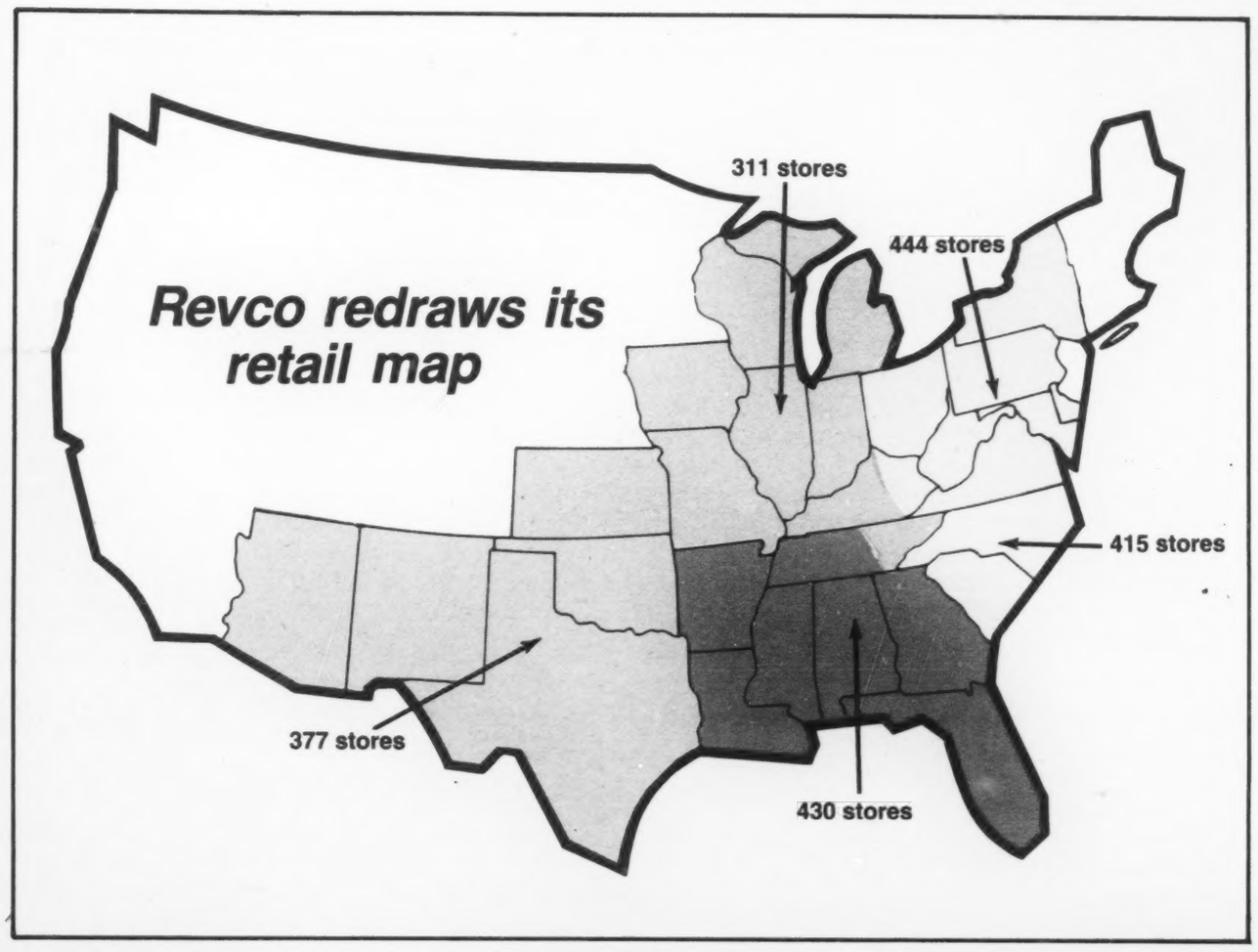

Revco revamps its field network

Efficiency move anticipates buyout

By Dave Vaczek

TWINSBURG, Ohio — Revco has completed a major reorganization of its field network, in a further step toward streamlining operations before the company goes private.

The changes—which will tighten the chain of command and redraw regional and district boundaries—were announced days after Revco's Board of Directors approved a $1.25 billion buyout from a management group led by Revco officers. The deal now requires stockholder approval.

The restructure is intended to increase the efficiency of operations, which analysts say must be a priority for the private company to handle its high debt service after the leveraged buyout.

5 regional zones

It divides Revco's 28-state operating area into five regional zones, containing 64 districts.

Neil Roth, Revco's vp-marketing, said the five regional divisions will make it easier to focus seasonal merchandising programs geographically. The new district boundaries delineate markets based on factors such as similarity of store merchandise and advertising zones, Roth said.

See **Revco,** *page 66*

Safeway cuts HQ workers

OAKLAND, Calif. — Safeway Stores Inc. laid off 25% of its California corporate workforce, anticipating a major restructuring under Kohlberg, Kravis and Roberts Associates, which is buying the supermarket chain.

Safeway management said 300 administrative and clerical employees in the Oakland corporate offices and in the supply division at Walnut Creek were given notice Aug. 18. The move was a preparation for drastic belt tightening that the 2,365-unit operation expects once KKR completes its $4.2 billion buyout. The deal was endorsed by the Safeway board on July 25.

See **Safeway,** *page 66*

Bolger retirement

ALEXANDRIA, Va. — In a change of plans, Bob Bolger, president of NACDS, will retire at the end of 1987 instead of spring 1989. See News in Brief, page 2.

Marc's spreads its smarts to Akron

CLEVELAND — Marc's, owner of five of the industry's highest volume stores, is rolling into Akron.

In its first foray outside Cleveland, the deep discount pioneer is launching two stores, one in the Plaza at Chapel Hill center that has 22,000 sq. ft. of selling space and one scheduled for a Sept. 22 opening in the Fairlawn Plaza (17,000 sq. ft. selling space).

The new units will follow Marc's much-emulated merchandising formula, which has created the two highest volume deep discount stores —the $30-million-a-year Marc's in Middleburg, and Bernie Shulman's $22 million unit in Mayfield Heights, named after the late founder.

Marc's combines ultra-low prices on drugs, H&BA, food and sundries with a unique presentation of merchandise that other operators have largely tried and failed to duplicate.

Value impression

The stores feature massive food and beverage displays, speed table assortments of seasonal merchandise and sundries, and cut-carton H&BA, with specials highlighted by hand-drawn

See **Marc's,** *page 66*

Marc's in Middleburg, Ohio, opened an adjacent fast food restaurant as a traffic draw.

Tax bill's impact on industry still murky

News Analysis

By Ken Rankin

WASHINGTON — The nation's drug chains and independent pharmacies figure to begin reaping major bottom-line benefits from this year's tax "reform" legislation by early 1987.

But the full impact of the bill—which was headed for final approval by Congress at presstime—may not be clear for several years.

Although the measure drew broad support from the drug store industry and other retail segments, the Congressional conferees responsible for fashioning the final compromise version included a number of provisions certain to offset

See **Tax,** *page 66*

'On balance, the measure will be favorable to us, given time. I'm disappointed at the retroactive loss of investment tax credits, of course, but I do applaud the cut in the corporate tax rate.'

Henry Panasci Jr. *Chairman and ceo, Fay's Drug Co.*

'Certainly the long-term effect of the lower corporate tax rate is favorable to Walgreens. But in the short term, the loss of the investment tax credits is a negative.'

Tom Mammoser *Director of Corporate Communications Walgreen Co.*

'Our industry was at the top of the tax scale, so I don't see how tax reform could possibly hurt us. Experts say the net gain to retailers will be five or six points after the loss of investment tax credits. But we'll have to wait to see how the I.R.S. interprets the new law.'

Jim Harrison Jr. *President Harco Drug Stores*

Management Training: Honing human relations skills See page 63

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NEWS IN BRIEF

Bolger retirement plans changed

ALEXANDRIA, Va. — Bob Bolger, president of the National Association of Chain Drug Stores, said the NACDS executive committee had decided to accept his original plan to retire at the end of 1987 rather than in the spring of 1989.

Bolger had changed his original retirement date at the request of several board members who were concerned that the search for a replacement was dragging.

Bolger told *Drug Store News* that the executive committee in a meeting last month decided to accelerate the search and bring someone on board by next July. The association president will stay through a transitional period ending in December.

Bolger said the committee wants to attract a candidate with a heavy government affairs and pharmacy background. The committee will meet next week to choose an executive search firm.

Big B earnings jump 22.3%

BIRMINGHAM, Ala. — Big B Inc., which mounted an aggressive expansion program in the first half of its fiscal year, announced record sales and earnings for the second quarter and 26 weeks ended Aug. 2.

Earnings for the 12-week quarter rose 22.3% to $1.2 million or 17¢ a share, from $959,000, or 15¢ a share, in the same period last year. Sales were up 19.8% to $45.8 million.

During the 26 weeks, Big B opened 14 new drug stores.

Sentry gets Arbor name fast

TROY, Mich. — Less than a week after Arbor Drugs completed its purchase of Sentry Drug stores, the stores were already carrying the Arbor name above their front doors.

Arbor said it had completed that phase of a planned makeover of the 19-store southeastern Michigan chain shortly after closing the deal Aug. 20 for an undisclosed price, estimated at $14 million to $14.75 million.

Publicly owned after an initial stock offering in April, Arbor will integrate Sentry by renovating the stores to the Arbor format. Arbor boosted its stores total to 71 by entering the Carolinas for the first time with two recent store openings.

Fazio's to add footage

MESQUITE, Tex. — Fazio's, the country's largest deep discount drug store with 44,000 sq. ft. of selling space, will add 5,280 sq. ft. in October.

To get the additional space (24 ft. by 220 ft.), Fazio's will push back a side wall.

At the same time, Fazio's will build a 50,000-sq.-ft. warehouse facility adjacent to the store. This will replace three outside storage facilities (totaling 50,000 sq. ft.) that are now being leased in Dallas, 20 minutes from the store.

According to Chuck Fazio, store manager and vp of Jote's, the corporation that controls the store, the additional space will be used to expand seasonal promos such as picnic supplies and outdoor cooking in the summer, and giftwrap, ornaments and small gifts in the winter.

INDEX

Beauty Beat 12	Inside Pharmacy 23
C. E. Lesson 55	Kanner: Eye on the Marketplace 11
Classified 65	Merchandising Trends 15
Cosmetics: Category in motion 20	People in the News 9
Editorial 4	Product Update 19
Financial 6	
Gladson: Store Manager Training Program . .63	

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Vol. 8, No. 20 September 15, 1986

Perry growth cuts earnings

PONTIAC, Mich. — Expenses stemming in part from Perry Drug's strong 1985 acquisition program took a heavy bite out of the chain's third-quarter earnings. The slump spurred projections of year-end earnings below those of 1985's 97¢ per share, which would be the chain's first year-end earnings slide.

Perry said increased costs from employee benefits and interest expenses relating to acquisitions were key factors in a 70% drop in earnings for the quarter ended July 31. Earnings hit $802,000, or 11¢ per share, compared with $2.7 million, or 27¢ a share, in the last year's comparable quarter.

Expenses from acquisition

A spokesman said the expenses arose from the 1985 acquisition program, when Perry boosted selling space by 63%, while buying up drug and auto parts stores.

"They're also carrying a little higher inventory than had been hoped because of somewhat disappointing volume in the auto parts stores," said Elliott Schlang, an analyst with Prescott, Ball and Turben.

Costs related to acquisitions this year, which include the June buy of the seven-store Warehouse Way deep discount chain, will have "little or no effect" on this year's earnings, a spokesman said.

Perry's interest expenses in the year ended Oct. 31, 1985 had jumped 200% to $6.2 million, contributing to a 41% increase in total costs and expenses, which were $507.6 million.

Year-end earnings forecast

But at the annual March meeting, Perry chairman Jack Robinson forecast year-end 1986 earnings per share of $1.10 to $1.20, in line with analysts' estimates. Second-quarter profits supported the forecast at $1.1 million, or 12¢ a share, up 20% from $1 million, or 10¢ a share, in the comparable quarter.

Perry offered a revised forecast on Aug 13, saying earnings would be depressed. On the heels of the announcement, its stock closed at $14.875, down $1.50. The stock (which traded at a $21-high this year) rebounded, to close at $15.125 up $1 on Aug. 28.

'We are confident that we will soon return to a much higher level of profitability, one which reflects a much better ratio between profits and sales growth.'

Jack A. Robinson
chairman and ceo

Insurance costs cited

The chain specifically cited high liability insurance costs, an industrywide burden, as a high expense area.

Officers noted that sales continued at a strong rate of growth, outstripping earlier projections. Third-quarter sales hit $165 million, 20% higher than last year's period. Year-end sales were predicted at $640 million, above a $615-million forecast that Perry made six months ago, and 23% above 1985.

Drug Barn launches 2nd store

Eyes N. Calif. expansion

SUNNYVALE, Calif. — Drug Barn will open its second deep discount drug store this month in Pleasant Hill, located in the East Bay area of northern California.

The 18,000-sq.-ft. store was occupied until January by Bill's Drug. Drug Barn bought out Bill's lease.

Lee Weinstein, store director and buyer for Drug Barn, said the company "will continue to expand in northern California. We are now considering several sites in the San Francisco Bay area."

Weinstein also said the first Drug Barn, an 18,000-sq.-ft. unit that opened almost three years ago in the Silicon Valley town of Sunnyvale, has met its projections, despite layoffs in the computer industry. "That puts us in the growth state," Weinstein said. He would not give specific plans.

Cosmetics relocated

In March 1986, Drug Barn remodeled Sunnyvale, and one of the major changes was to relocate the cosmetic department. "Formerly," said Weinstein, "cosmetics were on a side wall and were not getting the necessary exposure because they blended into the wall."

As a result, the manager's office adjoining pharmacy was moved into the store's backroom, and cosmetics changed location and configuration—from two sides of a 60-ft. gondola to four 16-ft. gondolas, plus wall space in the area vacated by the office. Increased visibility helped increase cosmetic sales 20%, according to Weinstein.

In another change, one gondola run was removed, and the aisles were widened from 6 ft. to 7 ft. "This enabled us to put case stacks in the aisle without impeding traffic," said Weinstein, "thereby giving the store a higher promotional profile."

Although most drug deep discounters buy 90% of their merchandise on deal, Drug Barn holds at 70%. "We don't always have the same sizes on a brand—and I'm talking about the top 100 brands—but we carry the brand at all times," said Weinstein. He added: "Price is not the only factor. Our customers are convenience-oriented and mobile. But the mobility cuts two ways. If we don't have what they want, they don't hesitate to go elsewhere. We can't afford to alienate customers, and that's why we buy from reps regularly."

Big Bear sets Sail for deep discount

SAN DIEGO — Can a conventional supermarket chain, in business for 50 years, strike it rich in the deep-discount drug field?

Larry Mabee, president of the 30-store Big Bear Supermarkets, will soon find out. Big Bear has bought the 14,600-sq.-ft. Sail Drug in Vista (30 miles north of San Diego) and is converting the store to deep discount. Big Bear will retain the name because it has been at that location for 16 years.

"The general approach of drug stores today is stagnant," Mabee told *Drug Store News*. "We are going to try different things to see if they work. Our approach is fluid."

Mabee would not elaborate on specific plans—or discuss the reset layout—except to say that the store will go deep into deal merchandise.

Opened first pharmacy

Big Bear opened its first pharmacy in its Escondido superstore late last year, and Mabee said it has been successful, thus whetting his appetite for a further incursion into drug.

Why drug? "Because we can do a little better, profitwise. The net profit of a supermarket is 1% or less," said Mabee. "In addition, we have a couple of hundred thousand square feet of warehouse space which is now distributing 60%-70% of drug store merchandise, and that lends itself to crossover."

As for competition, Sail will face off with Thrifty, Sav-On, Longs and Med-Rx. Said Jerry Volante, executive vp and general manager for Big Bear: "Competition in drug stores in this area is nowhere close to what it is in supermarkets."

Sees 2 growth areas

Mabee believes the grocery industry will grow in two areas—both of which will impact on drug stores. One is the superstore (50,000 sq. ft. and larger, such as Vons Pavilions and Ralphs Giant), and the other is 20,000-sq.-ft. food/drug combos.'

FINANCIAL

Food/drug operators report mixed results

American Stores

SALT LAKE CITY — American Stores, one of the country's leading operators of food and drug stores, reported flat sales and a decline in net earnings for the second quarter ended Aug. 2.

Earnings for the quarter decreased 21% to $33 million, or 85¢ a share, from $41.5 million, or $1.12 a share, in the corresponding period last year, while sales increased only 1.3% to $3.50 billion from $3.46 billion.

In predicting the earnings decline a week earlier, American said that the continuing weak economic conditions in the Midwest, Southwest and Rocky Mountain region, coupled with the highly competitive atmosphere in southern California, food price deflation and a high effective tax rate all contributed to the downturn.

More financial coverage, p. 8

For the 26 weeks, earnings declined to $65.3 million, or $1.68 a share, from $68.9 million, or $1.79 a share, in the year-earlier period. The earlier results included a nonrecurring charge of $3.5 million.

Kroger Co.

CINCINNATI — Kroger Co., which announced recently it will either sell or partly divest its drug store division, reported higher sales and net earnings for the 12-week and 24-week periods ended June 14.

Sales in the quarter rose to $4.3 billion, up from $4.0 billion a year ago. Net earnings in the period rose to $51.5 million, up from $46.7 million in the year-earlier quarter.

For the six months, sales climbed to $8.5 billion from $7.8 billion a year earlier. Net also climbed, to $83.8 million, up from $78.1 million a year ago.

Supermarkets General

WOODBRIDGE, N.J. — Supermarkets General Corp., which operates Pathmark and Purity Supreme food and drug stores, reported that second-quarter net income from continuing operations increased 16% to $21.1 million, or 55¢ a share, from $18.3 million, or 51¢ a share, in the prior-year period.

The company had a net writedown of $1.2 million, or 4¢ a share, from discontinued operations in the most recent quarter, ended Aug. 2, compared with a writedown of $245,000 in the year-earlier period.

Second-quarter sales increased 11% to $1.39 billion from $1.25 billion.

For the six months, net earnings from continuing operations were $34 million, or 91¢ a share, vs. $31 million, or 87¢ a share, in the same period last year.

First-half results were impacted by a $1.8 million, or 5¢ a share, writedown.

Giant Food

LANDOVER, Md. — Giant Food Inc., the Washington-area combo operator, said that net earnings for the 12 weeks ended Aug. 9 increased 11% to $13.5 million, or 45¢ a share, from $12.2 million, or 41¢ a share, in the same period last year. Sales advanced to $554.9 million from $506.4 million.

For the 24 weeks, net income was up 8.5% to $26.9 million, or 90¢ a share, from $24.8 million, or 83¢ a share, last year.

		STOCK PRICE							EARNINGS/SHARE			P/E	DIVIDENDS	
		From 08/15/86 - 08/27/86								Latest 12 Months vs Preceding 12 Months Change				
					Change		52-Week		Last Fiscal Year			Latest P/E Ratio	Indicated Dvd. Rate	
Name	Symbol	High	Low	Close	Amt.	Pct.	High	Low		Amt.	Pct.		Amt.	Yield
-	-	$	$	$	$	%	$	$	$	$	%	-	$	%
Chain Store transactions														
Am Stores	ASC	67.25	60.00	62.13	-3.50	-5.33	71.25	53.13	4.11	-1.33 q	-23.8	14.5	.84	1.4
Begley Co	BGLY	21.00	21.00	21.00	1.00	5.00	23.50	15.50	1.27	-.27 q	-20.5	20.0	.72	3.4
Big B	BIGB	17.88	17.50	17.50	.00	.00	18.75	12.63	.61	-.04 q	-5.7	26.5	.00	.0
Drug Sys	DRGS	7.00	6.88	6.88	.00	.00	8.25	3.75	-.43	-.85 q	-100.0	NE	.45	6.5
Fay's Drug	FAY	10.75	10.00	10.38	.25	2.47	11.75	8.00	.20	-.50 q	-87.7	NM	.20	1.9
Genovese Drug	GDX	15.38	14.75	14.75	-.50	-3.28	16.63	9.63	.73	-.17 q	-19.1	20.5	.20	1.4
Longs Drg Strs	LDG	35.13	32.63	34.75	.88	2.58	38.75	24.75	1.74	-.20 s	-10.4	20.1	.76	2.2
Medicare Glaser	MGCO	4.75	4.25	4.75	.25	5.56	5.00	3.50	-.20	-.11 q	NE	NE	.00	.0
Medicine Shoppe	MSII	30.50	28.75	30.50	1.25	4.27	32.00	21.00	.84	.15 n	18.8	32.1	.00	.0
Perry Drug	PDS	14.50	13.75	14.13	.00	.00	20.88	12.75	.98	.14 *	16.7	14.4	.22	1.6
Revco Drug	RDS	36.63	36.00	36.25	-.50	-1.36	39.88	24.25	1.72	.66 f	62.3	21.1	.80	2.2
Rite Aid Corp	RAD	34.88	32.50	33.63	-.50	-1.47	35.50	21.50	1.52	.09 q	5.6	19.9	.58	1.7
Walgreen Co	WAG	37.75	35.38	35.50	-1.63	-4.38	39.50	22.50	1.53	.14 n	9.2	21.3	.50	1.4
Wholesaler's transactions														
Alco Hlth	AAHS	21.38	20.50	21.38	.50	2.40	25.38	12.75	1.10	.19 n	18.3	17.4	.00	.0
Bergen Bruns	BBCA	23.00	21.88	22.25	-.63	-2.73	37.25	21.50	1.82	-.26 n	-14.4	14.4	.32	1.4
Bindley Wstn	BIND	12.25	11.63	11.75	-.13	-1.05	12.50	7.75	.79	.09 s	11.5	13.5	.00	.0
Cardinal Distrb	CDIC	20.50	19.25	19.25	-.75	-3.75	25.25	14.22	1.36	.40 q	40.8	13.9	.08	.4
Durr Fillauer	DUFM	13.63	13.00	13.00	-.75	-5.45	16.75	9.25	.78	-.02 s	-2.5	16.5	.16	1.2
Ketchum	KCH	23.25	21.50	22.00	-.50	-2.22	23.63	14.75	.17	-.39 f	-69.6	NM	.00	.0
McKesson Cp	MCK	67.00	62.38	66.00	3.50	5.60	67.00	44.88	3.96	.37 q	10.1	16.3	2.56	3.9
Moore Med	MMD	27.25	24.75	26.75	2.00	8.08	27.25	16.00	1.45	.23 s	18.3	18.0	.00	.0
Owens & Minor	OBOD	15.13	14.75	15.13	.13	.83	20.25	13.38	1.14	-.03 s	-2.8	14.4	.30	2.0
Manufacturer's transactions														
Abbott Labs	ABT	51.38	48.75	49.00	-2.38	-4.62	55.00	26.44	1.94	.32 s	17.8	23.1	.84	1.7
Am Home Prod	AHP	93.63	90.63	91.13	-1.63	-1.75	94.88	54.75	4.70	.40 s	8.8	18.5	3.10	3.4
Baxter Travenol	BAX	18.75	17.75	18.00	-.63	-3.36	21.25	12.38	.85	.43 s	238.9	29.5	.40	2.2
Block Drugs Co	BLOCA	27.25	26.50	26.75	-.50	-1.83	27.25	18.69	1.84	.15 q	8.6	14.2	.50	1.9
Bolar Pharm	BLR	28.00	23.75	26.25	1.63	6.60	32.88	12.00	.71	.13 s	18.6	31.6	.05	.2
Bristol-Myers	BMY	81.25	79.00	79.50	-1.63	-2.00	88.50	53.63	3.86	.24 s	6.6	20.4	2.20	2.8
Carter-Wallace	CAR	86.13	79.00	80.38	.38	.47	86.13	32.38	3.63	1.03 q	35.9	20.6	.80	1.0
Forest Labs	FRX	22.00	19.63	20.88	.75	3.73	22.00	10.56	.49	.15 q	37.5	38.0	.00	.0
ICN Pharm	ICN	34.00	20.00	22.50	-8.25	-26.83	34.00	8.63	-2.10	-2.20 s	-100.0	NE	.00	.0
Lilly Eli Co	LLY	82.38	77.25	79.13	-1.00	-1.25	83.50	41.50	3.69	.39 s	11.1	20.2	1.80	2.3
Lee Pharm	LPH	33.63	30.50	31.25	.13	.40	38.63	5.63	.40	1.62 n	450.0	15.8	.00	.0
Leiner P Nutri	PLIN	17.75	16.75	17.75	.50	2.90	21.00	8.50	.81	.26 q	40.6	19.7	.00	.0
Marion Labs	MKC	47.38	44.13	45.00	-1.88	-4.00	50.00	15.63	.70	.23 f	48.9	64.3	.20	.4
Merck & Co	MRK	116.75	110.75	111.75	-3.50	-3.04	116.75	51.75	3.79	.76 s	21.7	26.2	2.20	2.0
Morton Thiokol	MTI	38.25	35.25	37.38	1.00	2.75	40.50	30.00	2.80	.30 f	12.0	13.3	.70	1.9
Mylan Labs	MYL	15.13	13.13	14.00	.00	.00	18.09	9.00	.57	.24 q	63.2	22.6	.07	.5
Newport Pharm	NWPH	7.88	6.88	6.88	-.13	-1.79	14.50	4.88	-.08	-.13 f	-100.0	NE	.80	11.6
Par Pharm	PARP	17.75	16.75	17.75	-.50	-2.74	20.75	14.25	.47	.13 n	27.7	29.6	.00	.0
Pfizer Inc	PFE	70.25	66.50	68.25	-1.88	-2.67	72.88	43.75	3.44	.39 s	11.9	18.6	1.64	2.4
Robins, AH	QRAH	11.88	9.50	11.25	1.38	13.92	15.63	6.63	2.53	20.85 s	NE	4.2	.00	.0
Rorer Group	ROR	39.25	36.38	39.00	1.50	4.00	47.00	32.50	1.72	5.00 s	240.4	5.5	1.12	2.9
Scherer RP Co	SCHC	20.25	18.88	20.00	.75	3.90	20.25	11.50	-1.23	-.66 q	NE	NE	.32	1.6
Scher Plough	SGP	85.25	81.75	83.63	-.13	-.15	88.00	45.00	3.77	.44 s	12.3	20.8	1.80	2.2
Squibb Corp	SQB	122.75	115.75	115.75	-5.38	-4.44	124.13	65.13	4.20	.86 s	22.3	24.5	2.00	1.7
Sterling Drug	STY	52.00	49.63	51.38	1.13	2.24	52.00	30.50	1.83	-.48 s	-19.6	26.1	1.32	2.6
Syntex Corp	SYN	74.75	71.00	73.13	1.88	2.63	74.75	30.06	4.65	3.31 n	160.7	13.6	1.60	2.2
Thompson Med	TM	14.88	13.63	13.75	-.63	-4.35	21.00	11.75	1.18	-.44 s	-29.1	12.9	.40	2.9
Upjohn Co	UPJ	91.25	82.25	84.75	-5.63	-6.22	103.75	50.38	3.29	.93 s	34.4	23.3	1.52	1.8
Warner-Lambrt	WLA	62.75	60.63	61.13	-.25	-.41	63.13	33.75	-4.05	-6.15 s	-100.0	NE	1.56	2.6
Zenith Labs	ZEN	11.88	9.25	9.50	-1.50	-13.64	18.31	8.69	.73	.42 s	135.5	13.0	.05	.5

All data are based on sources believed to be reliable, but its accuracy is not guaranteed.
Every effort will be made to correct errors, when discovered, in future issues.

FOOTNOTES

NA - Item not applicable to this type of stock.
NC - Data required for calculation currently incomplete in our files.
NE - Negative earnings invalidate calculations.
NM - No meaningful figure.
q - First quarter
s - First six months
n - First nine months
f - Fiscal year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

Deep discounter parent firms show strong results

NEW YORK — The parents of two deep discounters each reported strong results in their second quarters and six months ended July 31.

F. W. Woolworth, which operates Rx Place deep discount drug stores, had sales and net income gains in both periods.

Second quarter sales rose to $1.5 billion, up from $1.4 billion, as net income in the period rose to $35 million, up from $27 million.

For the six months, Woolworth sales climbed to $2.9 billion, up from $2.6 billion, as net income rose to $48 million, up from $33 million.

More dramatically, Wal-Mart, which owns Dot deep discount drug stores, experienced a second-quarter sales climb to $2.8 billion, up from $1.9 billion a year ago. Net income rose to $96 million, up from $72 million in the comparable quarter a year earlier.

Its six month figures showed a sales gain to $5.1 billion, up from $3.6 billion in the same 1985 half. Net income rose to $169 million.

Sales gain at Longs in 2nd qtr.

WALNUT CREEK, Calif. — Longs Drug Stores reported a 9% sales gain but lower net earnings in the second quarter ended July 31. Its board also became the latest to adopt a shareholder rights plan to help fend off any hostile takeover attempts.

Sales rose to $389 million, up from $356 million in the comparable quarter a year ago at the 212-store chain.

However, a rise in expenses and the cost of goods sold contributed to a marginal slide in net earnings during the second quarter. Net slipped to $10.88 million, down from $10.89 million a year earlier.

Performance was similar in the six months. Sales rose to $773 million, up from $704 million a year earlier. Net income skidded to $20.2 million.

Drug Systems revenues down

MILWAUKEE — Drug Systems, the operators of the Pill & Puff chain, reported falls in revenues and net earnings during the quarter ended June 30.

Revenues dropped 47% to $14.4 million, down from $27.3 million in the comparable period a year ago.

Net earnings fell similarly to $206,000, down from $340,000 a year earlier.

Much of the decrease can be accounted for by the 1985 sale of White Drug Enterprises, the company said.

Profits jump at J. C. Penney

NEW YORK — J. C. Penney, parent of Thrift Drugs, reported a near doubling of operating profit in its second quarter ended July 26, to $57 million, up from $30 million a year ago.

Net income also climbed dramatically to $46 million, up from $30 million a year earlier.

Sales were also up to $3.2 billion, compared with $3.0 billion in the same period a year ago.

MERCHANDISING TRENDS

Combo evolution spawns specialized stores

The pace of the food/drug marketing evolution is quickening.

It started with the corner grocery store and the corner drug store.

Self-service sired the supermarket and the super drug store.

The supermarket then beefed up its mix of drug store-type merchandise to gain relief from low-profit food; the super drug store countered with low-priced food items to build traffic.

Then came the combination store: a food store and a drug store under one roof and using a central checkout.

Enter 'superstores'

But the combo refused to be harnessed to a single chariot, so large supermarkets—35,000 to 45,000 sq. ft.—called themselves "superstores." Instead of the 50/50 food/drug split, these stores varied the ratio, with nonfoods accounting for 20% to 40% of total space.

But the direction of the retailing evolution keeps changing—and competition is the determinant. That's how the gourmet combo came into being. In high income areas, it provided an opportunity to outflank conventional-store competitors and at the same time raise profit margins.

The gourmet combo book was written by Simon David, operated by Tom Thumb/Page. The original Simon David was a 14,000-sq.-ft. store in Dallas. By using vacant land behind the store, the square footage was upped to 33,000 on two levels. The store is heavily laced with service departments, including candy and RTD florist.

Encouraged by its success, Tom Thumb/Page has formed the Simon David division and will open a 75,000-sq.-ft. store in North Dallas and a 50,000-sq.-ft. unit in Austin late next summer.

Now the superwarehouse

Now comes the superwarehouse store (up to 110,000 sq. ft.), hailed as "the next generation of retailing."

While the gourmet combo affects only a specialized segment of consumers, the superwarehouse store is a megaton retail bomb with 20-mile fallout.

The giant-sized store carries a full line of H&BA, along with uptraded perishables. Some also have pharmacies.

What are combo operators doing to keep this voracious intruder (close to $1 million a week in volume) from devouring market share?

First, combo operators are increasing store size for wider selection. Smith's Food & Drug is making the swiftest leap—from 44,000 sq. ft. to 61,000 sq. ft. in one year.

Skaggs Alpha Beta stores started at 35,000 sq. ft. and are now up to 75,000 sq. ft. in some areas.

Albertson's has gone from 50,000 to 59,000 in two years, while King Soopers are at 61,000, up from 30,000 a decade ago.

Broader selection

A Dillon exec noted that combos are one-upping the warehouse store with a broader selection of perishables—"fresh fish, floral departments, service deli."

Albertson's also subscribes to this philosophy: "We increase the space for perishables when we remodel," said Gary Michael, vice chairman. "Remember, Super Valu [Cub's franchisor] sells groceries."

Other combos are making a frontal attack on the superwarehouse store by confronting its strength—price.

Said Al Martindale, chairman of Smith's Management Corp., which operates Smith's Food & Drug: "We work on low margins—grocery, 9%; H&BA, 13%; general merchandise, 20%; meat, 16%; and produce, 18%. And we plan to go even lower next year."

Maintaining profit structure

How then does Smith's maintain its profit structure? "One way," said Martindale, "is through increased sales due to lower prices—we're up 11% over last year. We have also been able to add almost

Continued on page 66

Leading combo operators

Company	# stores 1986 (year end)
The Kroger Co.	
Kroger	390
Dillon	150
American Stores	
Jewel/Osco	123
Skaggs-Apha Beta	111
Buttrey	38
Supermarkets General	126
Albertson's	102
Smitty's Super Valu	22
Raley's	48
Wegman's	30
Smith's Management	72
H. E. Butt	60
Giant Foods Inc.	83

Source: Drug Store News

The new look of Sue Bee Honey deserves a new look.

Sue Bee is the leading selling honey and the biggest profit-maker – by far. Now our full line – including the value-added table server and spun honey spread – has a "shopper preferred" new label to encourage new users and speed shelf movement.

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INSIDE PHARMACY

Brand name/generic 'marriage' still shaky

By Marjorie Shaffer

Two years after Congress streamlined the procedure the F.D.A. uses to approve low-cost generic copies of brand name drugs coming off patent, the industry is still going through a period of readjustment.

The 1984 piece of legislation was supposed to create a compromise, a marriage of sorts, that was intended to help the brand name companies and the generic drug makers live peacefully in the marketplace.

The legislation, the Drug Price Competition and Patent Term Restoration Act, eliminated much of the lengthy testing requirements for generic drugs, facilitating speedier approval of the low-cost generic copies.

'Exclusivity' clause

In return, brand name companies received extended patent protection for drugs going off patent. One of the compromises was an "exclusivity" clause that allowed brand name drugs exclusive indications. In other words, for a certain period, the generic version of the drug could not be advertised as effective for some of the same indications as the brand name drug.

'It's a common American business practice for a brand name company to st i ck on its own label for a product produced cheaper by another manufacturer.'

David Saks
drug analyst
Morgan, Olmstead, Kennedy & Gardner, N.Y.

But instead of a truce, all hell broke loose.

Drug companies previously enjoying big profits from brand name drugs years after their patents ran out were suddenly faced with competition from low-cost generic copies and, more important, the loss of millions of dollars in sales. Advertisements began appearing in major medical journals urging physicians to prescribe the brand name drug. "Dear Pharmacist" letters were sent warning of the liability risks if they prescribed the generic instead of the brand name drug. Medical groups sponsored by brand name drug companies began warning of the ineffectiveness of generic drugs.

Filed suit

In the latest bout, The National Association of Pharmaceutical Manufacturers, a trade association of generic drug makers, and Zenith Labs, a generic drug company, recently filed suit against Ayerst Labs, a division of American Home Products, and Pharmacists Planning Service, a Sausalito, Calif., company that publishes a newsletter, for trying to scare pharmacists out of prescribing the generic version of Inderal. The suit charges Ayerst and the newsletter with falsely warning pharmacists that they might be liable for damages if they dispensed the generic version of Ayerst's brand name drug Inderal to certain patients. It revolves around the exclusive indication Inderal has for post-myocardial infarction, a second heart attack. The claim expires at the end of this month.

Already, nine of the top 10 selling brand name drugs in 1984 are off patent, including Valium, Tylenol with codeine, Motrin and Diazide.

The suit seeks an injunction against Ayerst and the newsletter, plus damages and costs totaling more than $45 million.

Previously, generic manufacturer Mylan Lab, based in Pittsburgh, won an out-of-court settlement from Sandoz for almost $1 million for an antigeneric campaign against Mylan's generic copy of Mellaril, Sandoz' brand name for thioridazine.

Truce in the making

But behind all the unrest and price increases on brand name drugs that have not yet lost their patent, an uneasy truce is beginning to be reached.

Indeed, generic drugs have long provided a predictable income for the brand name pharmaceutical makers. The biggest companies in the business, Eli Lilly, American Cyanamid and Lederle, to name a few, were also, and in some cases still are, the biggest producers of generic drugs.

"It's a common American business practice for a brand name company to stick on its own label for a product produced cheaper by another manufacturer," said David Saks, drug analyst with Morgan, Olmstead, Kennedy & Gardner in New York. "Sears contracts with a whole host of vendors to produce its products, and the average American thinks everything is made

Continued on page 39

Some drugs going off patent: Generic competition intensifies

Product	Patent expiration	Estimated 1984 sales (millions)
Keflex (cephalexin)	1987	$240
Nebcin (tobramycin)	1989	88
Mandol (cefamandole)	1989	130
Haldol (haloperidol)	4/15/86	85
Dolobid (diflunisal)	1989	43
Elavil (amitriptyline)	2/18/86	29
IndocinSR (indomethacin)	9/24/86	40
Timoptic (timolol)	1989	115
Minipress (prazosin)	1989	105
Procardia (nifedipine)	2/22/89	154
Bactrim	6/2/87	31
Geocillin (carbenicillin)	1989	121
Lotrimin (clotrimazole)	1989	20
Chymodiactin (chymopapain)	1988	20
Ancef (cefazolin)	1987	88
Velosef (cephradine)	1986	34

Source: Morgan, Olmstead, Kennedy & Gardner

Evidence doesn't back generic inferiority claims

Despite claims that generics are somehow inferior to their brand name drug counterparts, the evidence does not substantiate such claims. "We certainly know of no documented evidence of therapeutic failure with an F.D.A.-approved generic drug," said Dr. Peter Rheinstein, director of the F.D.A.'s office of drug standards. "There have been more than 8,000 different generics approved and billions of dosages sold," he points out.

10 myths

Faced with increasing questions about generic drug quality, the F.D.A. issued a paper that identified 10 myths about generic drugs, including the idea that patients using generic products are more likely to suffer adverse reactions.

One of the most frequently used tactics against generics is the allegation that drug testing for generics takes place in only a small number of healthy volunteers, whereas brand name drugs are tested on thousands of patients. The F.D.A. debunks this "myth" by saying the statement is "misleading."

The F.D.A. points out that once the innovator drug is approved, establishing the efficacy of a generic only requires that the same active ingredient be produced correctly. Healthy individuals are used for testing, for ethical reasons, to show that the generic's ingredient reaches the blood stream in virtually the same amounts as the brand name drugs.

This bioequivalency testing, the F.D.A. paper notes, is also used for many brand name drugs because "in F.D.A.'s experience, the formulation the innovator uses to test its active ingredient clinically is not the same one that is eventually marketed. In order for the innovator to gain approval for the reformulated dosage form, it is required only to perform the same kind of bioequivalence test for approval of its new formulation that a generic manufacturer would do to show equivalence to the brand name drugs. Thus, for most drugs, the generic product and the marketed brand name product stand in the same relationship to the formulation that was originally tested for safety and effectiveness."

Uneasy truce

While this kind of publicity gets more widely disseminated, it is likely that an uneasy truce will be reached among brand name drug companies

Continued on page 42

Generics making large impact on market

In an era of spiraling health care costs and broad tax cuts, reality cannot be ignored. Generics are beginning to have a big impact on the market.

Earlier this year, a study by the Federal Trade Commission's Bureau of Economics concluded that substitution of generic drugs for the more expensive brand name product had *doubled* between 1980 and 1984. The authors of the study, Alison Masson and Robert L. Steiner, used 1980 data to estimate that consumer savings in 1984 from generic drug laws ranged between $130 million and $236 million.

Nevertheless, the F.T.C. study concluded that while generic drug laws have reduced retail prescription prices, substitution is still not taking place on a widespread basis. For example, in 1980 the study said substitution occurred on about 5.5% of available drugs for which substitution was allowed. In 1984, the rate doubled, but still occurred on less than one-fifth of all eligible prescriptions.

But overall, the study concludes that the generics will become more frequently dispensed because both consumers and pharmacists have economic incentives that favor substitution. "The most likely explanations for the low substitution rate are the newness of the laws and lack of clear and accurate information that consumers and pharmacists have about whether the prescriber would find a substitute acceptable."

Drug Store News' 1985 nationwide pharmacy survey on substitution practices showed that there was more than a 20% increase in the number of pharmacists substituting generics for branded drugs. Nearly two-thirds of the pharmacists polled said they substituted a generic drug for a brand, compared with 51.5% in 1984.

'Marriage' still shaky

(Continued from page 36)

by Sears. The same goes for many drug firms," said Saks.

Branded generics

Even the Pharmaceutical Manufacturers Association, a trade group of brand name drug companies, acknowledges that at least 72% of all generic products are sold by brand name drug makers. Some observers place the percentage even higher.

"In 1982, 80% of the generic market was branded generics like Pfizer's tetracycline," said William Haddad, chairman of the Generic Pharmaceutical Industry Association. "However, a substantial portion of those products sold as branded generics were actually manufactured by a generic company for a brand name company," he said, adding that the 1982 statistic "has changed radically in the last year as the size of the true generic market has changed." Haddad estimated that the market for generics will quintuple by 1990 to $5 billion.

Competitive strategies

Faced with a loss of revenue from brand name products going off patent, the brand name, research-intensive pharmaceutical companies are beginning to respond to the challenge by various strategies.

"We've been thinking about how we can interface with generic drugs—a way to chart a

Continued on page 46

Dollar sales exposed to generic competition
(Patents expiring 1981-1991)

Year	$ Sales (millions)
1991	$ 76
1990	200
1989	1,094
1988	285
1987	834
1986	778
1985	784
1984	1,077
1983	199
1982	675
1981	380

Source: Morgan, Olmstead, Kennedy & Gardner

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Firms react to challenge

Continued from page 39

future course to market generic products more creatively," said a Squibb spokesman. The answer: Squibb-Marsam Inc., a joint venture between Squibb and Marsam, a Cherry Hill, N.J.-based generic manufacturer specializing in injectibles for the hospital market. Last spring, the two companies entered into an agreement in which Squibb will market generic products developed by Marsam.

Said a Squibb spokesman: "Marsam enriches our overall effort in generics. This is our positive response to the 1984 patent legislation."

Quantum acquired

And American Home Products, one of the most vocal critics of generic drugs, earlier this year acquired controlling interest in a privately held generic drug manufacturer called Quantum Pharmics, based in Amityville, N.Y. It is interesting that Quantum has in its pocket a number of approvals for generic drugs, some of which are for American Home Products' biggest brand name sellers. Quantum, for example, got approval for lorazepam, the generic version of AHP's Ativan, made by its Wyeth subsidiary, and temazepam, a generic copy of Sandoz' Restoril. Ativan, in particular, is a big seller, accounting for about $200 million in 1984 sales. It went off patent in 1984.

An official with American Home Products said that the company did not buy Quantum specifically for its generic Ativan approval. "The generic drug business is a growing part of the pharmaceutical industry, and it's a sector of the business we would like to participate in," said Bill Emswiler, vp and treasurer of American Home Products. "I expect more of the larger pharmaceutical companies will be getting into the generic business," he observed.

American Home Products, however, is not the first big brand name company to buy a generic house. Ciba-Geigy owns Cord and Geneva Generics, both generic drug makers.

Another way brand name manufacturers rely on generic drug makers is to buy their products and then stick on their brand name. The best and the most successful example of such a "marriage" is Lederle's Maxide, a competitor of SmithKline Beckman's Diazide.

It may not be well known, but Lederle does not manufacture Maxide, Mylan does. And it's been a big success story. The potassium-sparing diuretic Maxide is now topping the $5 million per month sales mark. Lederle in fiscal 1986 did about $14.5 million worth of business with Mylan, accounting for about 18% of Mylan's $80.8 million last-year sales.

Other brand name drug companies have specific generic lines that carry the parent company's name. Both SmithKline and Lederle Standard Products are two examples of this kind of "marriage."

And finally, there are the ever-abundant examples of brand name companies jumping directly into the generic business with their own "brand" names for what is essentially a generic. Searle, for example, will soon bring out Haloperidol, its generic version of McNeil's well-known tranquilizer Haldol. And for years Burroughs-Wellcome has had a huge success with Lanoxin, generic of Digoxin.

So why are brand name drug companies uneasy?

Money. Big Money.

Today, nearly $4 billion in pharmaceutical sales is open to generic competition. That number is expected to rise to $6 billion by 1991. In other words, nearly one-third of the current $21 billion pharmaceutical business will be vulnerable to generic competition in five years.

Already, nine of the top 10 selling brand name drugs in 1984 are off patent, including Valium, Tylenol with codeine, Motrin and Diazide. By 1990, almost all of the 50 most frequently prescribed drugs will have lost their patents.

Products losing patents 1981-1991
(Selected drug companies)

Company	Products losing patent 1981-1991	Estimated '85 sales (millions)	% total sales
Merck	13	868	66%
Eli Lilly	10	837	64
American Home Products	7	659	55
Pfizer	8	568	62
Johnson & Johnson	4	366	41
Bristol Myers	10	327	51

Source: David Saks and Natalie Nekrutman, Morgan, Olmstead, Kennedy & Gardner, New York.

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BRISTOL-MYERS

INSIDE PHARMACY

F.D.A. market approvals stir orphan launches

More orphan drugs are finding a home in today's marketplace, thanks to several innovative pharmaceutical companies and a legislative boost from the Federal government.

While several large pharmaceutical companies such as Schering, Roche and Merck have long marketed orphans (the term generally given to drugs of low profitability that treat rare diseases), few have been seriously promoted.

But orphan drugs may finally be finding a place they can call home, in part due to some smaller, innovative pharmaceutical companies that are actively seeking to market them.

Good business sense

One such company is Medical Market Specialties, Cedar Grove, N.J. Because MMS has no research facility and therefore little overhead, president Joseph Ingolia believes that specializing in orphans that are already developed by the larger companies makes good business sense.

According to Ingolia, the company is constantly on the lookout for abandoned orphans whose rights can be purchased.

MMS staked its first claim in the not-too-crowded orphan drug market with the purchase of Proglycen, a drug originally developed by Schering several years ago to treat certain types of hypoglycemia.

But the market for orphans may not be a wide-open territory for companies like MMS for long.

Several drugs that received orphan status (during clinical trials) under the Orphan Drug Act of 1983 are beginning to receive F.D.A. approval for marketing.

Law encourages development

The law, designed to stimulate research and development of orphan drugs, offers pharmaceutical companies a 50% tax credit for clinical studies. This is in addition to a standard tax deduction normally allowed for clinical trials. In total, companies that initiate research in orphan drugs are able to take a 73% tax credit.

As an extra incentive, the law provided seven years of exclusive marketing to the prospective orphan drug manufacturers.

Definition strict

Definition of an orphan drug under the 1983 law is strict. An orphan is defined as a drug "intended to fight a disease or condition so rare that there is no reasonable expectation that the costs of development and marketing such a drug can be recovered from sales in the U.S."

The law is not limited to drugs alone. Also under its umbrella are medical devices and diagnostic tests.

The effects of the law were felt almost immediately. Companies anxious to climb on the orphan bandwagon tested the new law by petitioning the F.D.A. for orphan drug status to be attached to many drugs that were currently under development.

Between November 1983 and March 1985, the F.D.A. granted 53 orphan drug designations and turned down only six.

The first company to receive F.D.A. approval and market exclusivity for an orphan drug was Lymphomed Inc., Melrose Park, Ill. Its orphan, pentamidine isethionate, is indicated in the treatment of pneumonia caused by *Pneumocystis carinii*, a rare parasitical disease that is a common cause of death in AIDS patients.

12 orphans approved

In all, the F.D.A. has given its stamp of approval to 12 orphan drugs since the 1983 law went into effect. So far in 1986, two drugs have received F.D.A. approval: VitaCarn (L-Carnitine), marketed by Kendall-McGraw for the treatment of primary systemic carnitene deficiency, and Digibind, launched by Burroughs Wellcome for the treatment of life-threatening digitalis intoxication.

In addition to the new law, the F.D.A. Office of Orphan Product Developent actively seeks drug company sponsors of orphan drugs by advertising in the Federal Register. But that kind of cooperation from the feds wasn't always the case.

Approval process improved

Following the thalidomide tragedies of the early 1960's, Congress passed an amendment to the Food, Drug and Cosmetics Act in 1962 that called for better controls in the approval of new drug applications.

The new law resulted in longer approval times for new drugs at the pharmaceutical manufacturers' expense.

In many instances, a new drug would take from eight years upward to be approved, at a cost of more than $70 million dollars. For drugs that had a favorable return on investment, the wait wasn't intolerable, but unfortunately for most orphan drugs with a small return on investment, the wait resulted in their death sentence.

Victims of such rare diseases as myoclonus (approximately 3,000 victims in the United States), neuropathic cystinosis (approximately 100 victims), Tourette's syndrome and the now infamous "Lou Gehrig's Disease" (amyotrophic lateral sclerosis) had to go untreated, often resulting in their death.

Roche marketed six in 70's

But despite the barriers, some manufacturers still turned out a fair number of orphans. During the 1970's, Hoffmann-La Roche marketed six: Solatene (for erythropoietic protporphyria), Ancoban (an antifungal), Clonopin (for convulsive disorders), FUDR (for inoperable liver cancer), Nipride (for hypertensive crisis) and Rocaltrol (used in dialysis patients who cannot metabolize Vitamin D).

Merck also developed several during the same period. These included the anticancer agent Elspar (for lymphocytic leukemia), Cosmegen (for Wilms' Tumor) and Cuprid, currently one of the drugs of choice for the treatment of the often fatal Wilson's disease, a rare inherited disorder that interferes with copper metabolism, allowing poisonous levels to accumulate in the kidneys, liver, eyes and brain.

But market remains flat

Although the Orphan Act of 1983 was intended to make it easier for drug companies to get their orphans to market, the number of new orphan drugs reaching the market has not increased.

During the 1970's, approximately 40 orphan drugs were marketed, at an average rate of four a year. Under the new law, 10 orphans have been granted orphan status and are being marketed at the same rate, four a year (between the period of 1984 and mid-1986).

Advocates of the new law say, however, that it's not fair to judge the mer-

(Continued on page 52)

Drugs approved as orphans since Orphan Drug Act, Jan. 1983

Name	Disease/Condition	Estimated population needing drug	Sponsor
Panhematin	Hepatic porphyria (acute nervous system attacks)	100	Abbott Laboratories
Chenodiol	Cholesterol gallstones	150,000	Reid-Rowell Laboratories
Cromolyn Sodium 4% Ophthalmic Solution	Seasonal conjunctivitis	16,000	Fissons
Pentamidine isethionate	Pneumocystis carinii pneumonia	2,000-3,000	LyphoMed
Naltrexone	Certain drug addictions	40,000	Dupont Pharmaceuticals
Potassium Citrate	Kidney stones from citrate deficiency	184,000	University of Texas Health Science Center
Somatrem	Dwarfism	15,000	Genentech
Monooctanoin	Billary tract cholesterol gallstones	4,500	Ascot Pharmaceuticals
Trientine HCl	Wilson's disease (congenital copper poisoning)	700	Merck Sharp and Dohme Research Laboratories
L-Carnitine tablets	Primary carnitine deficiency	100	Sigma Tau
L-Carnitine enteral liquid	(lack of an amino acid complex)	100	Kendall-McGraw Laboratories
Digibind	Life-threatening digitalis poisoning	4,000	Burroughs-Wellcome

Source: Food and Drug Administration

Groups cultivate research inducements

Tax incentives are not the only reason pharmaceutical companies invest in orphan drug research, according to some observers.

In some cases, the companies have turned an apparently dead-end research effort into a philanthropic or public relations cause.

In the early stages of drug development, a scientist often doesn't know what he has. While much of the research done by pharmaceutical companies is for the development of a particular product indicated for a specific disease, once in clinical trials, its usefulness in treating other diseases is sometimes uncovered.

If that disease is rare, rather than scratch off years of research and development, a pharmaceutical company will seek orphan status for the drug, knowing full well that the drug will never recapture its investment.

But according to Edward Remers, a spokesman for the American Council on Science and Health, drug companies in this position feel it is better to market the drug for a number of other reasons besides financial rewards.

"Many of the drug companies feel they have a moral obligation to make these products available," said Remers.

Sponsors sought

Echoing Remers' thoughts is Tom Althius of Pfizer, who points out that "American corporations spend billions on philanthropic enterprises in the arts and education. Why not spend some money in their own field?"

But despite all the incentives, orphan drugs still do not always get top priority in research and development. To help stimulate companies to take on new orphan drug endeavors, the Pharmaceutical Manufacturers Association, representing 141 branded manufacturers, formed its Commission on Drugs for Rare Diseases in 1981.

PMA's hot list

Currently on the PMA's hot list are four substances for which the association is seeking sponsors: phenylbutyric acid (for congenital errors of urea synthesis in children), lecithin (for the treatment of Alzheimer's disease), sulfur hexafluoride (for complex retinal detachment) and tetrathiomolybdate (for Wilson's disease).

But the branded manufacturers aren't the only group of pharmaceutical manufacturers being sought after to endorse orphans.

The Generic Pharmaceutical Industry Association (GPIA) also solicits sponsors from its membership. According to Abbey Meyers, director of the National Organization of Rare Diseases (NORD), many of the generic companies are family-owned businesses and can decide in an afternoon whether to adopt an orphan.

"They don't have to wait months to go through a board of directors," said Meyers, who added that NORD works with the PMA and GPIA regularly.

But according to Myers, while the Orphan Drug Act has made clinical research more appealing, it does little to provide funds for basic research on drugs for rare diseases. Only recently has the Office of Budget Management released the $4 million originally included in the act to aid fundamental research. The government has not been as generous this year, appropriating only $2.4 million.

KLOR-CON® 8/KLOR-CON® 10
POTASSIUM CHLORIDE
EXTENDED-RELEASE TABLETS, U.S.P.

8 mEq and 10 mEq

KLOR-CON® tablets are film coated (not enteric-coated) tablets containing 600 mg (equivalent to 8 mEq) or 750 mg (equivalent to 10 mEq) potassium chloride (KCl) in an inert matrix. This oral potassium supplement formulation is intended to provide a controlled release of potassium from the matrix to minimize the likelihood of producing high localized concentrations of potassium within the gastrointestinal tract. The expended matrix is not absorbed and may be excreted intact in the stool.

INDICATIONS

BECAUSE OF REPORTS OF INTESTINAL AND GASTRIC ULCERATION AND BLEEDING WITH EXTENDED-RELEASE POTASSIUM CHLORIDE PREPARATIONS, THESE DRUGS SHOULD BE RESERVED FOR THOSE PATIENTS WHO CANNOT TOLERATE OR REFUSE TO TAKE LIQUID OR EFFERVESCENT POTASSIUM PREPARATIONS OR FOR PATIENTS IN WHOM THERE IS A PROBLEM OF COMPLIANCE WITH THESE PREPARATIONS.

1. For therapeutic use in patients with hypokalemia with or without metabolic alkalosis; in digitalis intoxication and in patients with hypokalemic familial periodic paralysis.
2. For prevention of potassium depletion when the dietary intake of potassium is inadequate in the following conditions: patients receiving digitalis and diuretics for congestive heart failure; hepatic cirrhosis with ascites; states of aldosterone excess with normal renal function; potassium-losing nephropathy, and certain diarrheal states.
3. The use of potassium salts in patients receiving diuretics for uncomplicated essential hypertension is often unnecessary when such patients have a normal dietary pattern. Serum potassium should be checked periodically, however, and if hypokalemia occurs, dietary supplementation with potassium-containing foods may be adequate to control milder cases. In more severe cases supplementation with potassium salts may be indicated.

CONTRAINDICATIONS

Potassium supplements are contraindicated in patients with hyperkalemia since a further increase in serum potassium concentration in such patients can produce cardiac arrest. Hyperkalemia may complicate any of the following conditions: Chronic renal failure, systemic acidosis such as diabetic acidosis, acute dehydration, extensive tissue breakdown as in severe burns, adrenal insufficiency, or the administration of a potassium-sparing diuretic (e.g., spironolactone, triamterene, or amiloride).

Wax-matrix potassium chloride preparations have produced esophageal ulceration in certain cardiac patients with esophageal compression due to an enlarged left atrium.

All solid dosage forms of potassium supplements are contraindicated in any patient in whom there is a cause for arrest or delay in tablet passage through the gastrointestinal tract. In these instances, potassium supplementation should be with a liquid preparation.

WARNINGS

Hyperkalemia: In patients with impaired mechanisms for excreting potassium, the administration of potassium salts can produce hyperkalemia and cardiac arrest. This occurs most commonly in patients given potassium by the intravenous route but may also occur in patients given potassium orally. Potentially fatal hyperkalemia can develop rapidly and be asymptomatic.

The use of potassium salts in patients with chronic renal disease, or any other condition which impairs potassium excretion, requires particularly careful monitoring of the serum potassium concentration and appropriate dosage adjustment.

Interaction with Potassium-Sparing Diuretics: Hypokalemia should not be treated by the concomitant administration of potassium salts and a potassium-sparing diuretic (e.g., spironolactone, triamterene or amiloride), since the simultaneous administration of these agents can produce severe hyperkalemia.

Gastrointestinal lesions: Potassium chloride tablets have produced stenotic and/or ulcerative lesions of the small bowel and deaths. These lesions are caused by a high localized concentration of potassium ion in the region of a rapidly dissolving tablet, which injures the bowel wall and thereby produces obstruction, hemorrhage, or perforation. KLOR-CON® 8 mEq and 10 mEq are extended-release tablets formulated to provide a controlled rate of release of potassium chloride and thus to minimize the possibility of a high local concentration of potassium ion near the bowel wall. While the reported frequency of small-bowel lesions is much less with extended-release tablets (less than one per 100,000 patient-years) than with enteric-coated potassium chloride tablets (40-50 per 100,000 patient-years), cases associated with extended-release tablets have been reported both in foreign countries and the United States. In addition, perhaps because the extended-release preparations are not enteric-coated and release potassium in the stomach, there have been reports of upper-gastrointestinal bleeding associated with these products. The total number of gastrointestinal lesions remains less than one per 100,000 patient-years. Potassium chloride extended-release tablets should be discontinued immediately and the possibility of bowel obstruction or perforation considered if severe vomiting, abdominal pain, distention, or gastrointestinal bleeding occurs.

Metabolic acidosis: Hypokalemia in patients with metabolic acidosis should be treated with an alkalinizing potassium salt such as potassium bicarbonate, potassium citrate, or potassium acetate.

PRECAUTIONS

The diagnosis of potassium depletion is ordinarily made by demonstrating hypokalemia in a patient with a clinical history suggesting some cause for potassium depletion. In interpreting the serum potassium level, the physician should bear in mind that acute alkalosis per se can produce hypokalemia in the absence of a deficit in total body potassium, while acute acidosis per se can increase the serum potassium concentration into the normal range even in the presence of a reduced total body potassium. The treatment of potassium depletion, particularly in the presence of cardiac disease, renal disease, or acidosis, requires careful attention to acid-base balance and appropriate monitoring of serum electrolytes, the electrocardiogram, and the clinical status of the patient.

ADVERSE REACTIONS

The most common adverse reaction to oral potassium salts are nausea, vomiting, abdominal discomfort, and diarrhea. These symptoms are due to irritation of the gastrointestinal tract and are best managed by diluting the preparation further, taking the dose with meals, or reducing the dose.

One of the most severe adverse effects is hyperkalemia (see Contraindications and Warnings). There also have been reports of upper and lower gastrointestinal conditions including obstruction, bleeding, ulceration and perforations (see Contraindications and Warnings): other factors known to be associated with such conditions were present in many of these patients. Skin rash has been reported rarely.

DOSAGE AND ADMINISTRATION

The usual dietary intake of potassium by the average adult is 40 to 80 mEq per day. Potassium depletion sufficient to cause hypokalemia usually requires the loss of 200 mEq of potassium from the total body store. Dosage must be adjusted to the individual needs of each patient but is typically in the range of 20 mEq per day for the prevention of hypokalemia to 40-100 mEq per day or more for the treatment of potassium depletion.

NOTE: KLOR-CON® Extended-release tablets must be swallowed whole and never crushed or chewed.

HOW SUPPLIED

Film coated, Klor-Con® 8 (blue), Klor-Con® 10 (yellow), imprinted round tablets containing:

600 mg potassium chloride (equivalent to 8 mEq) in bottles of 100 (NDC 0245-0040-11), bottles of 500 (NDC 0245-0040-15), and unit dose packages of 100 (NDC 0245-0040-01);

750 mg potassium chloride (equivalent to 10 mEq) in bottles of 100 (NDC 0245-0041-11), bottles of 500 (NDC 0245-0041-15), and unit dose packages of 100 (NDC 0245-0041-01).

Dispense in container with child resistant closure.

CAUTION: Federal law prohibits dispensing without prescription.

Consult complete information before prescribing.

Rev. 0686

UPSHER-SMITH
Upsher-Smith Laboratories, Inc.
Minneapolis, Minnesota 55441

INSIDE PHARMACY

Exercise video aids arthritics

HEALTHWORKS

Arthritis, literally inflammation of a joint ("arth" = joint; "itis" = inflammation) actually refers to more than 100 different diseases, according to the Arthritis Foundation, based in Atlanta. More than 36 million Americans, including children, have the painful disease. Osteoarthritis, rheumatoid arthritis, gout, lupus, scleroderma, ankylosing spondylitis and juvenile arthritis are all part of the spectrum of arthritic disease.

Now, an unusual video is being produced by the Bayer Company with technical assistance from the Arthritis Foundation. The video stars Jane Powell, known for her musical talent in such vehicles as "Seven Brides for Seven Brothers," and is tailored especially for people with arthritis.

Dr. Michael Lockshin, an expert in arthritis, said at the conference that physicians generally believe that specially supervised exercise for arthritis sufferers can be quite beneficial. Kathleen Haralson, a physical therapy specialist who helped supervise the exercise video, added that swimming and walking are the best activities for arthritics.

The video will run about one hour and will be available at the end of the year. Bayer said that it would be priced "competitively" and will be sold to drug stores.

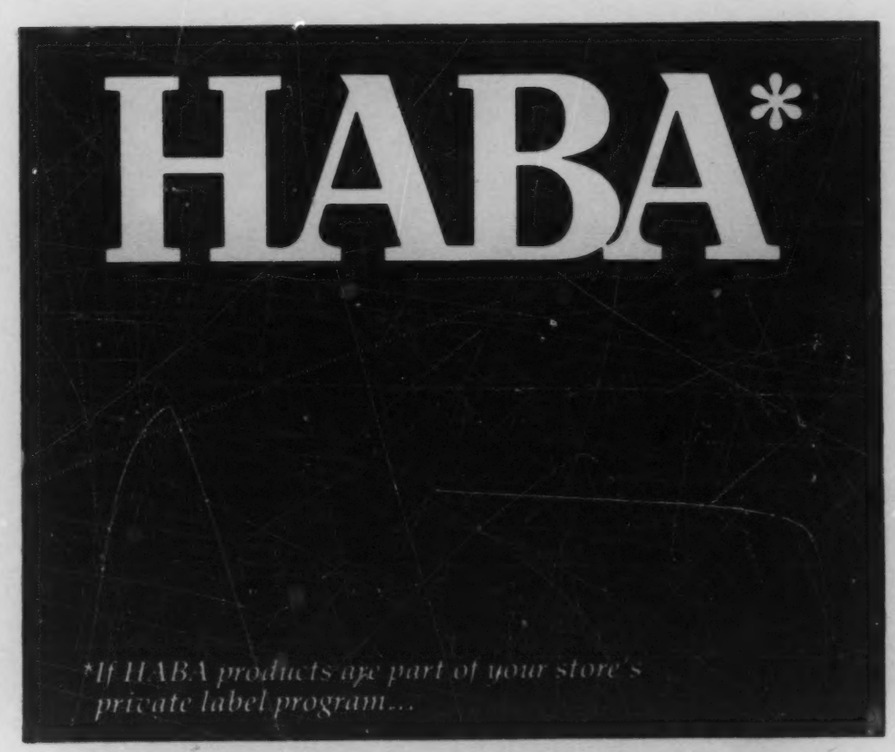
* * *

Cytomegalovirus (CMV) infection afflicts about 36,000 infants born in the United States each year. Although there are no apparent side effects in most infected newborns, about 10% go on to have impaired vision and hearing, and nerve abnormalities such as cerebral palsy, seizures or mental retardation.

While preventing the transmission of German measles from mother to fetus has proved do-able, this has not been the case with CMV: Studies show that women infected more than a year before conception can transmit CMV virus to their fetus. In other words, just because the mother has immunity against the virus, that in itself does not prevent transmission to the fetus. However, infected infants of women with immunity do appear to have less nerve damage.

Now there appears to be more disturbing news. A report in the May 29 issue of *The New England Journal of Medicine* shows children in day-care centers pick up the virus and transmit CMV to their mothers. Robert F. Pass, M.D. University of Alabama School of Medicine, Birmingham, and colleagues screened parents and children from three day-care centers where children had previously been known to have high rates of CMV infections. They also screened parents of children not in day-care centers for antibody to the virus. The results: children who acquire CMV in day-care centers "frequently transmit the virus to their mothers."

"Since it is very common for a second pregnancy to occur while the first child is still of preschool age, we must be concerned that these infections brought home from the day-care center would ultimately result in congenital infection," the authors reported.



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November 16-19
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Orphans tested on patients

Continued from page 50

its of the 1983 law solely on what has been marketed so far. They say it's necessary to wait another five years to see whether drugs that were designated as orphans just after the law went into effect are ever marketed. In 1984 alone, 37 drugs received orphan status and another 34 received the nod in 1985. Proponents of the law point out that most of these drugs are still in clinical trials.

To speed up the process of approval, the F.D.A. has approved testing of those orphans in clinical trials on patients who actually have the disease rather than on "healthy volunteers."

In one example, F.D.A. approval for Pimozide (McNeil) was based on one study involving 20 patients who suffered from Tourette's syndrome, a neurological disorder.

Safeway cuts workforce

Continued from page 1

"We have a major restructuring of our operations coming up. We know Safeway is eventually going to become a smaller company. This is preparation for that," said Robert Bradford, Safeway's senior vp-public relations.

Bradford said the cutback is "a recognition that the size of the company is going to shrink," even though KKR hasn't completed the purchase or announced which Safeway assets it will sell.

A tender offer by the New York investment company of $69 in cash for up to 45 million shares of 61.3 million outstanding shares expired Aug. 28, after which KKR would negotiate a merger to acquire the remaining shares. The merger would be completed within two months after the tender offer, during which time current management will be offered up to a 10% interest in SSI Holdings, the new company formed to own Safeway.

Numerous divisions of the country's largest supermarket chain have been named as possible spinoff candidates when KKR sells assets to reduce the heavy debt the leveraged buyout imposes. Dart reportedly has discussed buying the Southern California segment and the Eastern division (centered in Washington and Richmond, Va.), which would put the former owner of the Dart Drug chain at the helm of a grocery operation for the first time. Safeway's profitable California-based Liquor Barn division has been named as another sale candidate for Dart.

Safeway's Canada and Great Britain divisions are almost certain to be sold to other investors.

Cutting Safeway employment through attrition has been a priority of Peter Magowan since he became the chain's ceo and chairman in 1980.

Store workers not affected

Bradford said the layoffs did not affect store-level employees. Nevertheless, the United Food and Commercial Workers Union, which represents Safeway employees, filed a lawsuit against Safeway, KKR and others, including Safeway shareholders and the banks providing the buyout financing. The suit claims that the buyout is a "fraudulent conveyance" and violates the California Unfair Competition law, among other statutes.

KKR and Safeway in a joint statement said they believe the suit is without merit, and expect the tender offer to proceed subject to the stated terms.

Bradford said that Safeway officers have agreed to meet with the union to discuss their concerns at a date to be set sometime after Labor Day.

Revco revamps network

Continued from page 1

Field operations had been divided into two divisions, comprising 10 regions, and further divided into 105 districts.

The move follows a top management shift in which Richard Butler, former vp-store operations at F&M Distributors, was named senior vp-store operations, and Albert Sebok was moved from that post to a new slot as senior vp-professional operations.

More market-driven

William Edwards, president and ceo, said the redefinition of Revco's regions along market lines will allow the chain to "operate as a more market-driven organization, responding more quickly to customer needs.

The chain announced two new appointments to head two of the five new regions. Michael Miskell, 48, most recently a vp for gm and drug store operations at Supermarkets General, will head the Eastern region as vp. The 444-store region comprises Ohio, eastern Kentucky, West Virginia, Pennsylvania, Virginia, Maryland, Delaware and New York.

Richard Mergo, 41, formerly director of stores for retailing operations for Forest City Enterprise, Cleveland, is vp of the 377-store Western division.

Three former Revco regional vp's head up the other three zones.

Richard Pfrogner, 48, heads the Southern region, with 430 stores in Louisiana, Mississippi, Arkansas, Alabama, Georgia, Florida and western Tennessee. Darrell Patton, 38, oversees the Carolina region, with 415 units in North and South Carolina. And Allan Friedson, 41, will lead the 311-store Central region in Michigan, Indiana, western Kentucky, eastern Tennessee, Illinois, Kansas, Missouri and Iowa.

The 42-store Carl's chain in New York, New Hampshire, and Vermont will continue to operate as a separate division.

"It's really a preliminary step to get their arms around the business," said Susan Schmierer, an analyst with Prudential Bache.

Tax bill impact murky

Continued from page 1

much of the tax savings originally envisioned by chains and independents.

Plus side

On the plus side, corporate tax rates will decline significantly from the current 46% maximum to 34%. Although this reduction will benefit businesses of all kinds, retailers and wholesalers—generally unable to take advantage of the tax credits, subsidies and other breaks available to manufacturing firms—stand to gain proportionately more as a result of the lower rates.

Although the current 25% R&D credit will be trimmed to 20% retroactive to the beginning of 1986, research-oriented drug manufacturers do not believe this relatively modest cutback will chill new pharmaceutical development.

Effect on spending

Both retailers and manufacturers are counting on an increase in consumer spending as a result of the bill's overall reduction of individual taxes. However, recent analyses suggest that this may be wishful thinking.

Although the legislation will shift more than $100 billion in taxes from individuals to corporations over the next five years, the effect on the average family's take-home pay is estimated at only $5 to $8 per week—not enough to have a noticeable effect on consumer purchasing practices, according to economists.

Moreover, the bill's phase-out of tax deductions for consumer interest may discourage credit card purchases and at least temporarily depress consumer spending.

Minus side

In addition, the legislation contains several clearly negative provisions for drug retailers, including new rules governing the capitalization of inventory that will delay deductions for certain buying costs. Overall, that change is expected to increase the tax bite on retailing by $2.4 billion to $2.9 billion over the next six years, according to some analysts.

Similarly, fast-growing drug chains and expansion-minded independents will lose key tax breaks under the legislation, including the current 10% investment tax credit and the favorable depreciation rules for purchases of new equipment, buildings and vehicles.

The drug store industry also figures to be adversely affected by tighter rules governing other types of business deductions. Starting next year, for example, only 80% of the cost of business meals will be deductible, while expenses for certain other types of business entertainment may not be deductible at all.

Additionally, the industry may also see an increase in the already accelerating cost of insurance, as carriers adjust premiums to compensate for provisions in the tax bill establishing less favorable accounting rules for insurers.

In the long run, the lower corporate tax rates contained in the legislation may more than offset the cost increases for drug stores. But a final answer on how the retail drug industry will fare under tax reform may not be available until the 1990's.

Combos strive for edge

Continued from page 17

1% in pretax profits by operating our own warehouses for food and nonfood, as well as operating our own dairy. And next year, we are opening our own bread plant." Another contributing factor: "We work on good margins on housewares, imports and specialty categories such as movie rentals."

Jim Teel, vp of operations for Raley's, said, "We are adding more convenience, more variety and better service at the checkstands. In addition, we offer other services such as nutrition centers, travel centers and our new insurance centers."

Added Bob Wunderle, vp-consumer affairs for Supermarkets General: "Although our competitive strengths are variety, price and location, the most important thing is execution—the degree we can deliver. And that means well-stocked shelves; clean, well-lit stores; and good service at the checkstand."

Albertson's strategy

Gary Michael of Albertson's noted, "Our strategy is to narrow the price differential between the superwarehouse store and ours. Let's say their break-even is $800,000 a week. By competing strongly, we may help bring it down to $500,000. Because of their large fixed expenses [they invest $250,000 in a scratch bakery, while ours cost $100,000], they will have to raise prices, and that works to our advantage. But this won't happen overnight—it will take two or three years. Meanwhile, their stores are terrific, and they can scare the hell out of you."

However, the superwarehouse store is proving to be a moving target, for it, too, is changing.

Ralphs' Giant (60,000-110,000 sq. ft.) not only has upscale perishable departments, but leases 12 to 18 specialty stores on the concourse, further widening the selection. Byron Allumbaugh, Ralphs chairman, admits that Giant will lose some business to these shops, but he feels that they will add to one-stop shopping and enable the store to operate as a strip center. Typical lessees are Thrifty Jr. and Famous Amos cookies

H&BA pulls traffic

In its Pavilions stores (50,000-75,000 sq. ft.), Vons uses H&BA as a traffic draw (12% to 14% margins) to pull shoppers into a dozen service departments.

In Denver, Cub has not only doubled its usual number of H&BA sku's, but has opened one of the largest scratch bakeries in the West—it employs 50 people and bakes 35,000 loaves of bread daily. Drug Emporium is opening alongside the first three Cubs in the Denver area, thereby providing 100,000 sq. ft. of food and drug in a price-shouting environment.

Combo operators will try to open another bag of merchandising tricks to reduce that shouting to a whisper.

Core sales fight persists

Continued from page 15

/Page name—the most in its 50-year history.

Why? Combos are a lot more productive than their other store formats, including 13 freestanding Page drug stores.

What are conventional drug store retailers doing? In some cases, extending into newer areas, such as Rite Aid's video rental effort. Others such as Eckerd and Dart Drug have developed downsized prototypes that offer operating efficiencies and the flexibility to enter smaller but desirable locations.

Many conventional chains are cutting costs and improving distribution to keep the profits in the business even if sales don't grow much.

To keep their distinctive niche in the marketplace, many drug store operators are restressing pharmacy, OTC, H&BA and cosmetics departments. If they lose the health care image, they will lose the customer franchise and be less able to compete against divergent retail formats eying the same shopper.

Who will win? Only blood, sweat and tears will tell in the rest of the 1980's.—**Al Heller**

Marc's takes on Akron

Continued from page 1

cartoons. The value impact is enhanced by a somewhat disorderly presentation, due in part to the heavy customer traffic and high volume. Two caged Toucans add to the festive atmosphere in the Middleburg store.

Having peaked at $100 million in sales in 1985, Marc's is also expanding the Middleburg store by 10,000 sq. ft. to 32,000 sq. ft. by taking over an adjacent home center store in the Southland Shopping Plaza. Middleburg is home base for Marc Glassman, the Harvard MBA who is president and general manager and runs the chain with his mother.

The three other stores each hit $15 million in sales, still far above the average $6 million volume achieved by most deep discounters.

Both will have pharmacies, as do three of the five in the current fleet.

Grand opening advertising will include full-page ads in the *Akron Beacon* and the Cleveland *Plain Dealer*. Marc's typically confines advertising to occasional radio and newspaper promotions.

Marc's will be the first deep discount presence in Akron, 30 miles south of Cleveland, that now hosts Revco and Gray Drug Fair among conventional drug store chains, and food/drug combos opened by Finast and Giant Eagle.